

NORTHPOINTE ACADEMY
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2008

NORTHPOINTE ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2008

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**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Northpointe Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Northpointe Academy as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

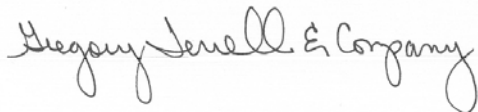
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Northpointe Academy as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated January 28, 2009 on our consideration of the Northpointe Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY
Certified Public Accountants

January 28, 2009

NORTHPOINTE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008

This section of the Northpointe Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Academy-Wide Financial Statements

The first two statements are academy-wide financial statements that provide short-term and long-term financial information about the Academy's overall financial status. These statements are required by accounting principles generally accepted in the United States of America (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the Academy's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with the requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities, if present, are reported in various other funds. These may include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

NORTHPOINTE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008
(Continued)

The Academy as a Whole

Recall that the Statement of Net Assets (deficit) provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30 2008 and 2007:

TABLE 1		Government Activities June 30	
		2008	2007
Assets			
Cash and Cash Equivalents		221,322	242,550
Other Receivables			
Due from Other Governmental Units		449,784	358,714
Prepaid Expense		20,000	20,000
Capital Assets, net of accumulated depreciation		396,859	80,092
Total assets		1,087,965	701,356
Liabilities			
Accounts Payable		20,003	-
Note Payable		134,244	-
Management Company Payable		579,292	86,895
Accrued Expenses		270,101	357,713
Total liabilities		1,003,640	444,608
Net Assets (Deficit)			
Invested in capital assets – Net of related debt		396,859	80,092
Restricted		-	
Unrestricted		(312,534)	176,656
Total net assets (deficit)		84,325	256,748

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$84,325 at June 30, 2008. Capital assets, net of related debt totaling \$396,859, compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The Academy does not carry any long-term debt. The Academy has no restricted net assets.

The (\$312,534) in unrestricted net results of operations from governmental activities mentioned above represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

NORTHPOINTE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008
(Continued)

The results of this year's operations for the Academy as a whole are reported in the Statement of Activities (see Table 2) which shows the changes in net assets for fiscal year 2008 compared with fiscal year 2007.

TABLE 2		Government Activities June 30	
		2008	2007
Revenue			
Program Revenue - Operating grants		578,660	287,731
General Revenue			
State school aid - unrestricted		2,268,447	1,688,385
Other		5,500	6,350
Total Revenue		2,852,607	1,982,466
Functions/Program Expenditures			
Instruction		1,328,122	1,015,122
Support Services		1,485,528	747,001
Food Services		151,963	81,200
Interest on long-term debt		-	-
Depreciation (unallocated)		59,417	4,215
Total functions/program expenses		3,025,030	1,847,538
Increase (Decrease) in Net Assets		(172,423)	134,928

As reported in the Statement of Activities the cost of all of our governmental activities this year was \$3,025,030. Certain activities were partially funded from other governments and organizations that subsidized certain programs with grants and contributions of \$578,660. We paid for the remaining "public benefit" portion of our governmental activities with \$2,268,447 in state foundation allowance, and with our other revenue, (i.e. interest and other local sources) of \$5,500.

The Academy experienced a decrease in net assets of \$172,423. The key reason for the change in net assets was the excess of expenditures over revenues resulting primarily from the following four factors that were unusual challenges during the 07-08 year. First the Academy had strong student growth in this third year of operation but was burdened by a shift in state aid funding that occurred in this third operating year. The state aid was calculated purely on current year enrollment only during the first two years of operation, which was presumed to be the high growth time. However, the Academy had high growth during this third year of operation but the formula began to average the pupil count with that of the prior year. Therefore, expenses to meet the increased enrollment were required without the benefit of proportionately matching revenue.

NORTHPOINTE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008
(Continued)

Second, the Academy had to significantly increase its security expenditures on an emergency basis due to a series of break-ins that preyed on newly acquired grant funded equipment. Security personnel were utilized around the clock until the scheduled but delayed electronic security system could be put into operation at a significant interim expense.

Third, reimbursement of lunch costs was delayed due to the lack of availability of suitable space for lunch service. This impacted revenue adversely.

Finally, capital improvement activities were undertaken to meet lease requirements and the additional needed usable space for the expanding student population. These were done in advance of securing any debt financing for the project.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy's operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance (deficit) of (\$312,534) which is a decrease of \$489,190 from last year. The primary reasons for the decrease relates to the excess of expenditures over revenues in the General Fund in the amount of (\$337,227) and a special management fee of \$215,060 compensating for fees bypassed in earlier years.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2008. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements.

There were significant revisions made to the 2007-2008 original General Fund budget. Budgeted revenues were decreased \$795,024 principally due to facilities issues which resulted in several adjustments including a decrease in State Aid revenue resulting from lower actual student enrollment than original estimates of \$691,518.

NORTHPOINTE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2008
(Continued)

Economic Factors and Next Year's Budgets and Rates

Our officials and administration consider many factors when setting the Academy's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 20 percent and 80 percent of the February 2009 and September 2009 student counts respectively. The 2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 83 percent of total General Fund revenue is from the foundation allowance and another 13 percent is from other governmental sources also driven by enrollment. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on the delay in facility development for the start of the 2009 school year we anticipate that the fall student count will be short of the estimates used in creating the 2009 budget. Once the final student count and related per pupil funding is validated, State law requires that Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference the State estimates funds are sufficient to fund the appropriation. The Legislature will hold another revenue-estimating conference in early calendar 2009. No change in the State's ability to fund the appropriation is expected.

**NORTHPOINTE ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	ASSETS	Governmental Activities
Current Assets:		
Cash and Cash Equivalents		\$ 221,322
Due from Other Governmental Units		449,784
Prepaid Expense		<u>20,000</u>
Total Current Assets		<u>691,106</u>
Noncurrent Assets:		
Capital Assets		460,491
Less Accumulated Depreciation		<u>(63,632)</u>
Total Noncurrent Assets		<u>396,859</u>
Total Assets		<u><u>\$ 1,087,965</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable		\$ 20,003
Accrued Expenditures		270,101
Management Company Payable		579,292
Note Payable		<u>134,244</u>
Total Current Liabilities		<u>1,003,640</u>
Net Assets		
Invested in Capital Assets Net of Related Debt		396,859
Unrestricted		<u>(312,534)</u>
Total Net Assets		<u>84,325</u>
Total Liabilities and Net Assets		<u><u>\$ 1,087,965</u></u>

The accompanying notes are an integral part of this financial statement.

**NORTHPOINTE ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants</u>	<u>Net (Expenses)</u>
				<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental Activities:				
Instruction	\$ 1,328,122	\$ -	\$ 578,660	\$ (749,462)
Support Services	1,485,528	-	-	(1,485,528)
Food Services	151,963	-	-	(151,963)
Unallocated Depreciation	<u>59,417</u>	<u>-</u>	<u>-</u>	<u>(59,417)</u>
Total Governmental Activities:	<u>\$ 3,025,030</u>	<u>\$ -</u>	<u>\$ 578,660</u>	<u>\$ (2,446,370)</u>
General Revenues:				
State of Michigan school aid unrestricted				\$ 2,268,447
Local sources				<u>5,500</u>
Total General Revenues				<u>2,273,947</u>
Change in Net Assets				(172,423)
Net Assets , Beginning of Year				<u>256,748</u>
Net Assets , Ending of Year				<u>\$ 84,325</u>

The accompanying notes are an integral part of this financial statement.

**NORTHPOINTE ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets			
Cash and Cash Equivalents	\$ 221,322	\$ -	\$ 221,322
Due from Other Governmental Units	449,784	-	449,784
Prepaid Expense	20,000	-	20,000
Total Assets	<u>\$ 691,106</u>	<u>\$ -</u>	<u>\$ 691,106</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 20,003	\$ -	\$ 20,003
Accrued Expenditures	270,101	-	270,101
Management Company Payable	579,292	-	579,292
Note Payable	134,244	-	134,244
Total Liabilities	<u>1,003,640</u>	<u>-</u>	<u>1,003,640</u>
Fund Balances			
Reserved for:			
Unreserved, reported in:			
Prepaid Expense	20,000	-	20,000
Unrestricted	(332,534)	-	(332,534)
Total Fund Balances	<u>(312,534)</u>	<u>-</u>	<u>(312,534)</u>
Total Liabilities and Fund Balances	<u>\$ 691,106</u>	<u>\$ -</u>	<u>\$ 691,106</u>
Total Governmental Fund Balances			\$ (312,534)
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
The cost of the capital assets is		460,491	
Accumulated depreciation is		(63,632)	396,859
Net assets of governmental activities			<u>\$ 84,325</u>

The accompanying notes are an integral part of this financial statement.

NORTHPOINTE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 5,500	\$ -	\$ 5,500
State Sources	2,359,545	-	2,359,545
Federal Sources	<u>487,562</u>	<u>-</u>	<u>487,562</u>
Total Revenues	<u>2,852,607</u>	<u>-</u>	<u>2,852,607</u>
EXPENDITURES:			
Current:			
Instruction:			
Basic Programs	1,300,640	-	1,300,640
Added Needs	<u>9,962</u>	<u>-</u>	<u>9,962</u>
Total Instruction	<u>1,310,602</u>	<u>-</u>	<u>1,310,602</u>
Support Services:			
Pupil	15,312	-	15,312
Instructional Support	2,208	-	2,208
General Administration	667,341	-	667,341
School Administration	250,199	-	250,199
Business	6,017	-	6,017
Operations and Maintenance	<u>561,971</u>	<u>-</u>	<u>561,971</u>
Total Support Services	<u>1,503,048</u>	<u>-</u>	<u>1,503,048</u>
Capital Outlay	<u>376,184</u>	<u>-</u>	<u>376,184</u>
Food Service	<u>-</u>	<u>151,963</u>	<u>151,963</u>
Total Expenditures	<u>3,189,834</u>	<u>151,963</u>	<u>3,341,797</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(337,227)</u>	<u>(151,963)</u>	<u>(489,190)</u>
OTHER OPERATING SOURCES			
Operating Transfer In	-	151,963	151,963
Operating Transfer Out	<u>(151,963)</u>	<u>-</u>	<u>(151,963)</u>
Total Operating Sources	<u>(151,963)</u>	<u>151,963</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(489,190)	-	(489,190)
Beginning of Year	<u>176,656</u>	<u>-</u>	<u>176,656</u>
End of Year	<u><u>\$ (312,534)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (312,534)</u></u>

The accompanying notes are an integral part of this financial statement.

**NORTHPOINTE ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds	\$ (489,190)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Capital Outlay	376,184
Depreciation expense	<u>(59,417)</u>

Change in net assets of governmental activities	<u>\$ (172,423)</u>
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The accompanying notes are an integral part of this financial statement.

**NORTHPOINTE ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive / (Negative)</u>
REVENUES:				
Local Sources	\$ 25,883	\$ 25,883	\$ 5,500	\$ (20,383)
State Sources	3,159,090	2,376,147	2,359,545	(16,602)
Federal Sources	<u>234,824</u>	<u>222,743</u>	<u>487,562</u>	<u>264,819</u>
Total Revenues	<u>3,419,797</u>	<u>2,624,773</u>	<u>2,852,607</u>	<u>227,834</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic Programs	1,377,304	1,050,101	1,300,640	(250,539)
Added Needs	<u>150,676</u>	<u>183,618</u>	<u>9,962</u>	<u>173,656</u>
Total Instruction	<u>1,527,980</u>	<u>1,233,719</u>	<u>1,310,602</u>	<u>(76,883)</u>
Support Services:				
Pupil	25,683	-	15,312	(15,312)
Instructional Support	25,331	25,331	2,208	23,123
General Administration	817,748	502,504	667,341	(164,837)
School Administration	212,278	208,690	250,199	(41,509)
Business	40,000	33,184	6,017	27,167
Operations and Maintenance	454,291	518,289	561,971	(43,682)
Central Support	<u>279,403</u>	<u>207,150</u>	<u>151,963</u>	<u>55,187</u>
Total Support Services	<u>1,854,734</u>	<u>1,495,148</u>	<u>1,655,011</u>	<u>(159,863)</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>376,184</u>	<u>(376,184)</u>
Total Expenditures	<u>3,382,714</u>	<u>2,728,867</u>	<u>3,341,797</u>	<u>(612,930)</u>
NET CHANGE IN FUND BALANCE	37,083	(104,094)	(489,190)	(385,096)
Beginning of Year	<u>176,656</u>	<u>176,656</u>	<u>176,656</u>	<u>-</u>
End of Year	<u>\$ 213,739</u>	<u>\$ 72,562</u>	<u>\$ (312,534)</u>	<u>\$ (385,096)</u>

The accompanying notes are an integral part of this financial statement.

NORTHPOINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **ORGANIZATION**

Northpointe Academy ("Academy") is a Public School Academy the State of Michigan has delegated to the School District of the City of Highland Park the responsibility of authorizing the establishment of public school academies. The Academy was formed as a Public School Academy pursuant to the Michigan School Code of 1976 ("Code"), as amended.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy's activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NORTHPOINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS** (cont'd)

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Academy reports the following non-major governmental fund:

The *school service fund* is the Academy's primary non-major fund. It is used to account for food services operations. It is a subsidiary operation and obligation of the General Fund.

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by Northpointe Academy (the "Academy") are described below:

Cash Equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

NORTHPOINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

The Academy's capitalization policy is individual amounts exceeding \$500 and an estimated useful life in excess of three years.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgets and Budgetary Accounts

The General Fund budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978). The Academy did not adopt a separate School Service Fund budget.

For the year end June 30, 2008, expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Basic Program	\$ 1,050,101	\$ 1,300,640	(\$ 250,539)
Pupil	-	15,312	(15,312)
General Administration	502,504	667,341	(164,837)
School Administration	208,690	250,199	(41,509)
Operations and Maintenance	518,289	561,971	(43,682)
Capital Outlay	-	376,184	(376,184)

(4) **DEPOSITS AND INVESTMENTS**

State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or trustees is secured in accordance with the requirements of the agency or trust agreement.

NORTHPOINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(4) **DEPOSITS AND INVESTMENTS (cont'd)**

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories. The Academy's bank balances were \$292,057 at June 30, 2008, and \$100,000 was covered by FDIC insurance.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's policy does not address custodial credit risk. The Academy does not have investments with custodial credit risk.

(5) **MANAGEMENT COMPANY PAYABLE**

The Academy contracted with Evans Solutions, Inc. to provide management services. The agreement provides for payment of a management fee equal to 12.5% of the Academy's state aid funding. In addition, Evans Solutions, Inc. is reimbursed for costs relating to Academy operations, personnel, curriculum, food services and other similar costs.

(6) **OPERATING LEASE COMMITMENT**

The Academy is party to an operating lease with the Archdiocese of Detroit. The lease requires various monthly payments per year. The lease term is for sixty-four (64) months starting March 1, 2007 and expires June 30, 2016.

The minimum future lease payments are presented below:

2009	\$ 216,632
2010	221,566
2011	221,556
2012	221,556
2013	221,556
2014-2016	443,112
	<u>\$ 1,545,978</u>

NORTHPOINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)

(7) **NOTE PAYABLE**

The note payable of \$134,244 at June 30, 2008, represents the outstanding balance on a State Aid Anticipation Note of \$400,000. The note calls for monthly principal and interest payments from the Academy's state aid revenue or other general funds. The note bears interest at 6% and was fully paid in August 2008.

(8) **CONTINGENCIES**

In April 2006, the previous management company of the Academy filed suit against the Academy alleging breach of property lease, maintenance and utility services agreements. The Academy denies the allegations and has filed a counterclaim. The administration of the Academy believes that the outcome of this lawsuit will not have a material affect on the accompanying financial statements accordingly, no provision for any possible liability has been recorded.

The Academy receives grants that are subject to external reviews and audits which could result in certain costs becoming disallowed.

(9) **RELATED PARTIES**

The Academy contracted with a construction company that employs the relative of a member of the Board of Directors. The firm has been paid approximately \$123,344 for the year ended June 30, 2008.

(10) **SUBSEQUENT EVENTS**

Subsequent to year end, the Academy received a letter from the Michigan Department of Education requesting additional support for costs of approximately \$196,000 for the Academy's Charter School Program grant that covered the year ended June 30, 2007. No provision has been made to the financial statements for the costs that the Michigan Department of Education might ultimately disallow.



**GREGORY
TERRELL
& COMPANY**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Northpointe Academy

We have audited the financial statements of Northpointe Academy (the "Academy") as of and for the year ended June 30, 2008, and have issued our report thereon dated January 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

GENERAL LEDGER

During our audit we noted that the capital assets were not included in the general ledger and trial balance. As a result, the beginning balances for the current year balance sheet is incorrect.

We recommend that the Academy include all balances in the general ledger to ensure that the beginning balances agree to the audit report.

AUDIT ADJUSTMENTS

During our audit we noted that the financial statements required material adjustments as a result of cash understatements, under accruals, and prior year accruals not reversed in the current year. As a result, the ending balances required material adjustments at year end.

We recommend that the Academy reverse all prior period accruals, reconcile balances to the general ledger, and expense transactions in the proper period for accurate and complete ending balances.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider both items to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

DEADLINE FOR REPORTING

Under Michigan State law, the deadline for submission of the annual audited financial statement is November 15.

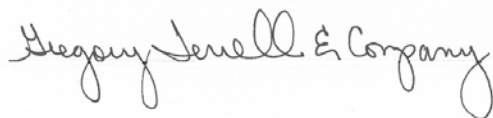
We recommend the Academy have its books closed and records available to meet the audit requirements in accordance with the State mandated deadline.

GENERAL FUND DEFICIT

The School Aid Act 94 of 1979 states that a public school academy receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year.

We recommend that the Academy prepare a deficit reduction plan and submit to the Michigan Department of Education in accordance with the requirements of the School Aid Act.

This report is intended solely for the information and use of the Board of Directors, Management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



GREGORY TERRELL & COMPANY
Certified Public Accountants

January 28, 2009